

STATE OF VERMONT  
PUBLIC SERVICE BOARD

Docket No. 7765

Petition of Green Mountain Power Corporation, )  
pursuant to 30 V.S.A. § 108(a), for approval to )  
issue First Mortgage Bonds in an amount up to )  
\$75,000,000 )

Order entered: 10/27/2011

**I. INTRODUCTION**

On July 25, 2011, Green Mountain Power Corporation ("GMP" or "the Company") filed a petition (the "Petition") with the Vermont Public Service Board ("Board") for approval pursuant to 30 V.S.A. §108(a) to issue long-term debt securities in a maximum aggregate offering amount up to \$75 million ("the Bonds") by means of a private placement. The Bonds will be issued under the Company's First Mortgage Bond Indenture ("Indenture"). The Petition was supported by the testimony of Dawn Bugbee, the Company's Chief Financial Officer, and by accompanying exhibits.

On August 30, 2011, the Vermont Department of Public Service (the "DPS") informed the Board that it had reviewed the petition and supporting documentation. Based on its review, the Department recommended that the Board find the Company's petition to be consistent with the general good of the State without hearing or further investigation. The DPS also submitted a separate letter on August 30, recommending that the Board approve the Petition without hearing and finding that the requested issuance of \$75 million in long-term debt as set forth in the Petition is consistent with the *Vermont Electric Plan* pursuant to 30 V.S.A. § 202(f).

On September 16, 2011, the Clerk of the Board issued a memorandum informing GMP that additional financial information in the form of GMP's audited statements for fiscal years 2009 and 2010 was needed in order to complete the review of the Petition.

On September 21, 2011, GMP filed the additional financial information.

On October 14, 2011, the Deputy Clerk of the Board issued an inquiry via electronic mail informing GMP that additional information was needed concerning GMP's projected capitalization after the issuance of the Bonds.

On October 17, 2011, GMP filed the additional information consisting of "Attachment A" to the Petition.

I have reviewed the Petition, the supporting testimony, accompanying documents, and supplemental filings. I conclude that approval of GMP's Petition pursuant to 30 V.S.A. §108(a) is appropriate and that such approval may occur without hearing. Based upon the evidence of record and the testimony and exhibits presented in this docket, the DPS letters of August 30, 2011, and the additional financial information filed by GMP on September 21, 2011, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 8.

## **II. FINDINGS**

1. GMP is a company as defined by 30 V.S.A. §201, and is subject to the jurisdiction of the Board pursuant to 30 V.S.A. §203. Petition at 1.

2. GMP proposes to issue up to \$75 million maximum aggregate offering amount of first mortgage bonds under the Company's Indenture. The Bonds, together with the Company's other first mortgage bonds, will be secured under the terms of the Indenture by a first lien on substantially all of the Company's utility property. The Bonds are to be issued by means of a private placement with accredited investors, and as such will be exempt from the registration requirements of the Securities and Exchange Commission. Although the term and interest rate for the Bonds have not yet been established and will be determined by market conditions at the time of their placement with a purchaser, it is expected that the term will consist of a combination of ten- and thirty-year maturities and, based on current yields of U.S. Treasury bonds for fixed-rate pricing, the Company anticipates that the interest rates will be in the range of 4% to 4.75% for a ten-year issuance and 5.50% to 6.50% for a thirty-year issuance. GMP's secured bond rating with Standard & Poor's ("S&P") is A-, and with Moody's Investor Services ("Moody's") it is A2. A recent Blue Chip forecast for A2-rated companies indicated an expected borrowing rate of approximately 4.20 percent for a ten-year issue and 5.70 percent for a thirty-year issue. Petition at 1; Bugbee pf. at 3-5; exh. DB-1.

3. The Company intends to use its short-term revolving credit facility<sup>1</sup> to provide initial funding support for capital investments totaling \$163 million for fiscal year 2012, including GMP's share of the investment in the Kingdom Community Wind Project (the "Project") of approximately \$112 million.<sup>2</sup> The proceeds of the Bonds will be used to fund GMP's 2012 capital requirements and to potentially eliminate the Company's short-term debt. Bugbee pf. at 3-4, petition at 2.

4. GMP anticipates that the closing for the Bonds will occur no later than November 2011. Due to the extended construction period of the Project, the collateral available as of November 2011 will only support a \$50 million bond issuance. As a result, GMP will close the Bonds for the full \$75 million but will divide the issuance in two tranches: \$50 million in November 2011 and \$25 million in March or April 2012. GMP expects that this approach will save the Company approximately \$250,000 in transaction costs. The Company projects that by the time the second tranche is drawn, the value of the Project will be sufficient to support the collateral requirement of the Indenture. If, for any reason, the Project does not continue as planned after November 2011 and capital costs are not incurred, the second tranche will be canceled. *Id.*

5. GMP anticipates that some terms of the Bonds, including interest rate, maturity date(s), redemption options (if any), sinking fund obligations (if any), and the final amount of bonds to be issued, will be finally determined according to market conditions and negotiated terms with a proposed private placement purchaser or purchasers. Bugbee pf. at 5.

6. GMP has not yet retained an investment firm to manage the placement of the Bonds. The Company is in the process of soliciting bids and expects to sign an engagement letter as of September 30, 2011. *Id.*

7. The capitalization of the Company as of June 30, 2011 was as follows:

Long-term debt	\$169,145,000
Short-term debt	\$ 16,000,000

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1. GMP recently increased the credit availability of its revolving credit facility from \$30 million to \$45 million. See Docket No. 7703, Order of 2/04/11.

2. The Project received a Certificate of Public Good from the Board on 5/31/11 in Docket No. 7628.

Common equity	\$205,427,000
Equity %	53%
Debt %	47%

The forecasted capitalization of the Company as of December 31, 2011, June 30, 2012, and September 30, 2012, reflecting the anticipated impact of the proposed issuance, would be as follows:

	<u>December 31, 2011</u>	<u>June 30, 2012</u>	<u>September 30, 2012</u>
Long-term debt	\$213,145,000	\$236,990,000	\$236,990,000
Short-term debt <sup>3</sup>	\$ 5,000,000	\$ 25,000,000	\$ 35,000,000
Common equity	\$220,090,000	\$263,040,000	\$265,515,000
Equity %	50.2%	50.1%	49.4%
Debt %	49.8%	49.9%	50.6%

Bugbee pf. at 6; attachment A.

8. The change represented above is within the Company's current target capital structure, which is approximately 50.9% equity, and 49.1% percent debt.<sup>4</sup> Practically speaking, the amount of leverage in the Company's capital structure will fluctuate by 3-5 percentage points around the target capital structure amount based in part on variations in GMP's credit line usage and scheduled payments to principal. The equity component is affected by periodic equity injections from GMP's parent company, Gaz Metro (through holding company, Northern New England Energy Corporation).<sup>5</sup> While the Board should always be concerned with worsening financial ratios, the proposed increased leverage in the rate year should not be problematic as long as the Company's earnings and cash flows do not decline materially. The proposed bond issuance was

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3. Short term debt will be reduced during the first quarter of fiscal year 2012 with an anticipated equity infusion from GMP's parent company, Gaz Metro.

4. As of 9/30/11 (GMP's fiscal year-end), the Company's capital structure was 50.5% equity, 49.5% debt. This structure will essentially remain unchanged, based on GMP's projections, after the new bond issuance and including the expected equity infusion from Gaz Metro.

5. In October 2010, Gaz Metro, through holding company Northern New England Energy Corporation, made a capital contribution to GMP in the amount of \$20 million to maintain GMP's debt to equity ratio of 50%. GMP is projecting an additional equity infusion of \$38 million for fiscal 2012. Green Mountain Power Corporation, Consolidated Financial Statements for September 30, 2009 and 2010, footnote no. 20 at 43; attachment A.

included in GMP's rate filing submitted for the twelve-month period of October 1, 2011, through September 30, 2012. Bugbee pf. at 7-8; attachment A.

9. GMP's debt is rated BBB, "Stable" for S&P, and A- for secured debt. GMP's secured debt rating from Moody's is A2. The Company's BBB rating from S&P is about average for energy companies. Bugbee pf. at 7.

10. The Company met with its rating agencies in early February 2011 to present its five-year forecast and met again in June 2011 to present the investment impact of the Project on GMP's liquidity position and rates. The rating agencies have not expressed concerns that the forecasted results would reduce the Company's credit rating. Bugbee pf. at 8.

11. Without the proposed transactions, the Company's short-term liquidity will be exhausted. GMP does have the option to activate the accordion feature<sup>6</sup> on its 5-year revolver agreement up to an additional \$15 million in availability; however, activating this feature would not be adequate to meet GMP's anticipated capital requirements. In addition, the ratings agencies may view such an action by GMP as a negative consideration for liquidity and risk exposure. Bugbee pf. at 7-8.

### **III. DISCUSSION & CONCLUSION**

Based upon the findings and the evidence in the record, I find that GMP's Petition as described above will be consistent with the general good of the State. I therefore recommend that the Board approve the Petition, as amended, and authorize the requested issuance of long-term debt in the amount of \$75 million to fund GMP's 2012 capital requirements and to reduce its short-term debt.

The parties have waived the opportunity for review of the Proposal for Decision, briefing, and oral argument, in accordance with 3 V.S.A. §811.

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6. This feature involves an extension by the lender of additional credit availability above the originally established credit limit on the existing line of credit. Different institutions use different terminology for this feature, which is also known as a "guidance" or "advisory" line of credit. *Pratt's Commercial Law: A Banker's Handbook*. Vol. 1, § 2-9 (A.S. Pratt & Sons, 1997).

Dated at Montpelier, Vermont this 26<sup>th</sup> day of October, 2011.

s/Jay E. Dudley

Jay E. Dudley

Hearing Officer

#### **IV. ORDER**

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The findings, conclusion and recommendation of the Hearing Officer are accepted and adopted.
2. The Board consents to the issuance by Green Mountain Power Corporation ("GMP") of long-term debt securities in a maximum aggregate offering amount up to \$75 million, to be issued in two separate tranches of \$50 million and \$25 million, as set forth in the findings, above.
3. The Board consents to the mortgage and pledge of real and personal property of GMP under GMP's First Mortgage Bond Indenture, as set forth in the findings, above.
4. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that GMP may implement with the proceeds from this issuance of long-term debt. Nothing in this approval shall preclude the Vermont Department of Public Service ("DPS") or any other party, or the Board, from reviewing or challenging those expenditures and/or the resulting capital structure in any future proceeding.
5. GMP shall inform the Board and the DPS of any material change in the terms and conditions of the financing, if any, prior to closing.
6. Upon request, GMP shall provide the Board and the DPS with a complete set of final executed documents.

Dated at Montpelier, Vermont this 27<sup>th</sup> day of October, 2011.

<u>s/James Volz</u>	)	
	)	PUBLIC SERVICE
	)	
<u>s/David C. Coen</u>	)	BOARD
	)	
	)	OF VERMONT
<u>s/John D. Burke</u>	)	

OFFICE OF THE CLERK

FILED:           October 27, 2011

ATTEST: s/Judith C. Whitney  
Deputy Clerk of the Board

*Notice to Readers: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)*

*Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.*